

# REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON JOZINI MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Jozini Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010) (DORA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on the financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## **7.1 Property Plant and Equipment**

### **7.1.1 Basis for qualified opinion**

The Property plant Equipment R109,272 million as disclosed in note 2 to the financial statements, did not agree to the asset register totalling R62,090 million resulting in a difference of R47,152 million. Consequently, we were unable to verify existence and rights of assets disclosed in the financial statements.

## **7.2 Accounts Payables**

### **7.2.1 Basis for qualified opinion**

The accounts payables of R2,009 million as disclosed in note 10 to the financial statements includes an amount of R967,105 for trade creditors. A difference of R832,619 did not agree to the suppliers' statements and the reconciliations at year end. The municipality did not prepare proper creditors' reconciliations. Consequently, we were unable to verify valuation and existence of accounts payables disclosed in the annual financial statements.

## **7.3 Rates debtors**

### **7.3.1 Basis for qualified opinion**

The Rates debtors of R10,810 million (2010:R7,602 million) as disclosed in note 6 to the financial statements does not agree to the ageing reflected in the note of R12,858 million (2010:10,947 million). This has resulted in a difference of R2,048 million (2010:R3,346 million). The municipality did not properly assess the impact on the ageing of rates debtors in preparing financial statements. Consequently, we were unable to verify valuation of the rates debtors disclosed in the annual financial statements.

## **7.4 Accumulated Surplus**

### **7.4.1 Basis for qualified opinion**

The municipality could not provide sufficient appropriate audit evidence to support transfers to accumulated surplus of R34,450 million as disclosed in the Statement of Changes in Net Assets. There were no satisfactory alternate audit procedures that I could perform to obtain reasonable assurance accumulated surplus was properly disclosed. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence of the balance at year end.

## **7.5 Lease commitments**

### **7.5.1 Basis for qualified opinion**

The operating lease commitments of R2,267 million as disclosed in note 26 is overstated by R1,166 million Furthermore no comparative figures were disclosed. The escalation on lease was not properly applied in compliance with GRAP 13. Consequently, we were unable to verify valuation of the lease commitments disclosed in the annual financial statement.

## **7.6 Cash flow statement**

### **7.6.1 Basis for qualified opinion**

Presentation of a cash flow statement, summarising the entity's operating, investing and financing activities, is required by Standard of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*. Insufficient workings were submitted to support amounts presented in the cash flow from operating activities as other cash item amounting to R624,760. Consequently, we were unable to verify amounts disclosed in the cash flow from operating activities.

### **Qualified Opinion**

8. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Jozini municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and in the manner required by the MFMA and DORA.

### **Emphasis of matters**

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

### **Significant uncertainties**

10. As disclosed in note 19 to the financial statements, the municipality is being sued for termination of a contract. Council is contesting the claim based on legal advice. A court date has not been set. The contingent liability includes legal cost of R 900 000. Should council be unsuccessful in defending the claim, there is a possibility that the claim will be settled for R 4, 300 million.

### **Restatement of corresponding figures**

11. As disclosed in note 20 to the financial statements, the corresponding figures for the year ended 30 June 2010 have been restated as a result of errors discovered during 2010-11 in the financial statements of the Jozini Municipality at, and for the year ended, 30 June 2011.

### **Irregular expenditure**

12. As disclosed in note 25 to the financial statements, the municipality has incurred irregular expenditure totalling R1,654 million as a result of engaging in business transactions with service providers who were employees of other state departments.

### **Additional matter**

13. I draw attention to the matter below. My opinion is not modified in respect of this matter:

### **Unaudited supplementary schedules**

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

15. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010* issued in *Government Gazette No. 33872 of 15 December 2010*. I include below my findings on the annual performance report as set out on pages ... to ... and material non-compliance with laws and regulations applicable to the municipality.

### **Predetermined objectives**

16. I was unable to conduct the audit of performance against predetermined objectives as the municipality did not submit the annual performance report as required by section 46 of the MSA and section 121(3)(c) of the MFMA and part C of *General notice No. 1111 of 2010*, issued in *Government Gazette No. 33872 of 15 December 2010*.

### **Compliance with laws and regulations**

### **Expenditure management**

17. As required by section 62(1)(d) of the MFMA, The accounting officer did not take reasonable steps to prevent irregular expenditure.

### **Annual Performance report**

18. Contrary to the requirements of section 46 of the MSA and section 121 (3) ( c) of the MFMA, the municipality did not prepare an annual performance report and submit it in time for audit.

19. Contrary to the requirement of section 38(a)(iii) of the MSA, the performance management system established by the municipality was found not to be in line with the priorities, objectives, indicators and targets contained in its integrated development plan.

20. Contrary to the requirements of section 26.(i) of the MSA the integrated development plan did not reflect the key performance indicators and performance targets determined in terms of section 41.

## **Annual financial statements, performance and annual report**

21. The accounting officer submitted financial statements for auditing that were not prepared in all material respects in accordance with generally recognised accounting practice and supported by full and proper records as required by section 122(1)(a) of the MFMA . Material misstatements identified with regards to Fixed assets, Rates debtors , Prior period error, cash flow statements, Payables , lease commitments and accumulated surplus were not corrected.

## **Internal control**

22. In accordance with the PAA and in terms of *General Notice No. 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies regarding the findings on the annual performance report and the findings on compliance with laws and regulations.

- **Leadership**

Management does not exercise oversight responsibility regarding financial and performance reporting and compliance and related internal controls.

Management did not establish and communicated policies and procedures to enable and support understanding and execution of internal control objectives, processes, and responsibilities for rates debtors.

- **Financial and performance management**

The municipality did not implement controls over daily and monthly processing and reconciling of transactions on suspense accounts.

Management has not implemented proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible to support financial reporting on accumulated surplus and cash flow statements.

The municipality does not prepare regular, accurate and complete financial information that are supported and evidenced by reliable information.

Management did not review and monitor compliance with applicable laws and regulations.

Pietermaritzburg

30 November 2011



AUDITOR - GENERAL  
SOUTH AFRICA

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